

Kentucky Agricultural Finance Corporation

Minutes of the September Meeting

The meeting of the Kentucky Agricultural Finance Corporation was held on Friday September 9, 2005 at 10:00 AM EDT at the Transportation Cabinet in Frankfort, Kentucky. Michael Judge, presiding, called the meeting to order. Mr. Judge then asked Nicole Ray, Secretary, to call the roll.

Members Present

Commissioner Farmer (Michael Judge, designee); Wayne Hunt; Larry Jagers; Doug Lawson; Charles Miller; Bob Proffitt; Sandy Ross; Secretary Robbie Rudolph (Joseph B. Howard, designee)

Members Absent

Jane Jones, Billy Joe Miles, Annette Crawford Walters

Others Present

Staff- Catherine Ball, David Bratcher, Tim Hughes, Nicole Ray, Keith L. Rogers, Jessica Woolums

Guests- Don Goodin, Cabinet for Economic Development; Anna Kindrick, Department of Agriculture; Alan Lutz, Three Rivers Farm, LLC; Kenny Buckman, Integrity Feed; David and Carl Dickerson, Dickerson Lumber; Scott Luth, Glasgow Industrial Development Economic Authority

Notification of Media

Michael Judge received verification from Keith L. Rogers, Executive Director, that the media had been notified regarding the September Board meeting.

Approval of Minutes

Doug Lawson moved to approve the minutes from the June 24, 2005 meeting as presented. Wayne Hunt seconded the motion. The motion passed without dissent.

Executive Directors Report

Mr. Judge yielded the floor to Mr. Rogers for the Executive Director's Report.

Mr. Rogers welcomed Catherine Ball back from maternity leave.

Mr. Rogers notified the Board that today is the deadline to know what action the tobacco companies plan to take about the North Carolina Supreme Court ruling. He stated that we are optimistic about the ruling and expect to see the \$114 million returned to the Commonwealth.

Mr. Rogers notified the Board that the Agricultural Development Board (ADB) will be meeting on November 17th and 18th for a planning meeting to discuss policy issues.

Mr. Rogers notified the Board and guests that the next meeting of the KAFC Board is scheduled for October 12, 2005.

Mr. Rogers welcomed Larry Jagers as the newly appointed member of the Board.

Presentation by Don Goodin of the Economic Development Cabinet

Mr. Rogers recognized Don Goodin, Director of Direct Loan Programs from the Cabinet for Economic Development, as the designee for Gene Strong on the ADB. He stated that he thought it would be beneficial for the Board to hear Mr. Goodin present the Economic Development Cabinet's policy on direct loans and to answer some questions by Board members.

Mr. Goodin stated that the program had been in place since the early 1960's and had begun by primarily lending to industrial authorities. They now lend to businesses as well. Most of their loans are relatively small, averaging about \$250,000. It is a low interest rate program, about 1-2% interest currently.

They do all loan servicing internally and contract with banks for accounting functions, amortization schedules and payments. The bank also does all the investments for the program with direction from Finance.

Mr. Goodin spoke about the requirements of the loan applicant to ensure that payment is received. Requirements include: annual financial statements, life insurance on the owner for the amount of the loan and employment numbers

Presentation by Three Rivers Farms and Integrity Feeds, LLC

Mr. Judge yielded the floor to Tim Hughes to introduce the next presentation.

Mr. Hughes introduced Alan Lutz from Three Rivers Farms in Madisonville and Kenny Buckman from Integrity Feeds, LLC in Owensboro. He asked them to share the relationship between their companies and how their projects will fit into the expansion of the hog industry and provide opportunities for other producers in the Kentucky.

Mr. Lutz described his swine business of 5,500 sows. Their history included selling weaned pigs to out-of-state producers on contracts for finishing. They have recently looked at expanding their swine business in Kentucky to work with Swift and PIC. They want to impact producers in Kentucky similarly to what Indiana has done, to affect more people such as producers of corn. Mr. Lutz is interested in expanding his three existing farms and contracting to build a new facility. Mr. Lutz showed the Board where the farms and feed mills are located now. He wants to encourage the building of finishing barns in close proximity to the feed mill in Park City because they require a large amount of feed and to reduce the hauling distance for both the hogs and the feed.

Mr. Rogers thanked Mr. Lutz and Mr. Buckman for their presentation.

KAFC Policy Review

Mr. Rogers stated that staff has two policy recommendations for the Board to consider.

Mr. Rogers distributed a memo regarding future meeting dates and application deadlines. Application deadlines will be two weeks before each planned meeting date.

A motion to accept the policy regarding meeting dates and application deadlines as presented was made by Mr. Miller, seconded by Ms. Ross. The motion passed without dissent.

Staff recommends that KAFC work to increase the loan limit from \$1,000,000 to \$5,000,000 in the budget bill during the 2006 General Session, but also work to keep the authority in the next budget bill in case the statutory limit is not raised. Staff also recommends that KAFC ask the ADB to support the loan limit and accept any changes that may be required in the KAFC and ADB agreement.

A motion to accept the recommendations was made by Mr. Hunt, seconded by Mr. Proffitt. The motion passed without dissent.

Mr. Rogers distributed scenarios for [establishing loan pools within](#) the Tobacco Grower Investment Fund and the Agricultural Processing Investment Fund [in an attempt to develop an equitable distribution of available KAFC funds](#). A geographical formula for dividing the Tobacco Grower Investment Fund [was proposed based upon](#) on the six districts [as identified by the Kentucky Agricultural Statistics Service census](#). Distribution targets determined by either tobacco poundage quotas or total cash receipts for agriculture [were identified](#). A formula for the Agricultural Processing Investment Fund [was also presented which could be based upon the economic contributions of livestock or crop enterprises within KY and a potential allocation on a pro-rata basis](#). A list of [prospective loan and ADF](#) applicants was also distributed. Discussion took place and no action was taken.

Agricultural Processing Investment Fund - Discussion and Action

Mr. Hughes presented the application by Dickerson Lumber #AF05-0018. The information on this project was mailed to the Board in August. The Loan Review Committee met with the Dickersons in Glasgow on August 15.

Mr. Hughes introduced David Dickerson from Dickerson Lumber in Glasgow. Mr. Dickerson introduced Carl Dickerson, his brother and business partner, and Scott Luth, the Economic Development Director in Glasgow.

Mr. Dickerson described his family's operation as a third generation business. Mr. Hughes updated the board that the Dickersons are working with US Bank out of Glasgow.

A motion to approve with the terms and a 3% interest rate was made by Mr. Lawson, seconded by Ms. Ross. The motion passed without dissent.

Mr. Rogers excused himself to present the loan terms to the Dickersons.

Mr. Hughes distributed a financial report and updated the Board on funds loaned, interest received, funds remaining and the status of ongoing projects. Two loans have been approved and have had funds disbursed. This gives the KAFC a 0% default rate with two loans closed. There is a \$3 million cash balance plus interest from West Kentucky Cooperative and the State Investment Commission of \$91,751, which gives KAFC a working capital of \$3,091,751.

Mr. Hughes distributed an update on the linked deposit program. There is \$7 million outstanding in agriculture loans.

Old Business

AF05-0015 Young Farmer loan was approved prior to the auction for purchase of 60 acres priced at maximum price of \$2,000 per acre for a total of \$60,000. He now plans to purchase 50 acres at \$2,600 for a total loan of \$65,000. Farm Service Agency plan to service their loan and KAFC will seek a FSA guarantee on its portion of the loan. Mr. Hughes asked for a motion to accept or deny the request.

A motion to approve was made by Ms. Ross to accept, seconded by Mr. Proffitt. The motion passed without dissent.

Cumberland Farm Products has made a business decision not to pursue the project for which they sought KAFC funding. Therefore, Mr. Hughes requested a motion rescinding the acuthority to act on the Cumberland Farm Products application.

A motion to rescind the authority was made by Mr. Miller, seconded by Mr. Lawson. The motion passed without dissent.

New Business

Loan Applications

Agricultural Infrastructure Loan Program

Mr. Hughes presented #AF05-0017 received in July requesting \$75,000 at 2% for ten years. Regions Bank in Murray will add a .75% origination fee. The borrower is tobacco dependent. KAFC will be taking a second mortgage on a three acre tract with a grain bin and equipment shed.

A motion to approve the staff recommendation was made by Mr. Hunt, seconded by Mr. Lawson. The motion passed without dissent.

Mr. Hughes presented #AF05-0019 for construction of two 25,000 acre grain bins at a total project cost of \$100,000, requesting \$50,000 at 2% interest plus a .75% servicing fee and will be services by Elkton Bank and Trust. The borrower is tobacco dependent. An appraisal on the property was received for \$599,000.

A motion to approve was made by Mr. Hunt, seconded by Mr. Lawson. The motion passed without dissent.

Mr. Hughes presented #AF05-0021 for constructing a new dairy facility at a total cost of \$248,000, requesting \$100,000 at 2% interest plus a .75% servicing fee. Farm Credit Services is originating the loan.

A motion to approve with personal signatures was made by Mr. Miller, seconded by Mr. Proffitt. The motion passed without dissent.

Mr. Hughes presented #AF05-0024 for construction of free-stall dairy barn. Total construction cost will be \$758,000, requesting \$100,000 at 2% interest. The bank, BB&T, is offering a letter of credit at a .5% cost to the borrower in lieu of mortgages because there are multiple owners.

A motion to approve was made by Mr. Hunt, seconded by Mr. Lawson. The motion passed without dissent.

Mr. Hughes presented #AF05-0026 for a tobacco barn. Total construction cost is \$72,082.71, requesting \$36,803 at 2.75% for ten years. Farm Credit Services will take a .75% serving fee out of that rate. KAFC will share a second mortgage with Farm Credit Service on a 290 acre farm.

A motion to approve was made by Mr. Hunt, seconded by Ms. Ross. The motion passed without dissent.

Mr. Hughes presented #AF05-0027 also for a tobacco barn. Total construction cost is \$101,726, requesting \$58,880 at 2.75% interest for ten years. Farm Credit Services will take a .75% servicing fee out of that rate. KAFC will take a subordinate position to the Farm Credit Services on first mortgage on a 22 acre tract of land with an appraisal value of \$145,200.

A motion to approve was made by Mr. Hunt, seconded by Mr. Miller. The motion passed without dissent.

Mr. Hughes presented #AF05-0029 for a hog finishing barn. Total cost \$410,452, requesting \$100,000 at 2.75% interest. Heritage Bank in Murray will take a .75% fee out of that rate. The applicants are refinancing an existing note on another barn. Security will be a first mortgage on 39 acres with two barns, appraised value of \$852,000, along with equity in the personal residence.

A motion to approve was made by Mr. Hunt, seconded by Mr. Proffitt. Mr. Lawson abstained from the vote. The motion passed without dissent.

Other Business

No other business.

Closing Remarks

The motion to adjourn was made by Mr. Miller, seconded by Mr. Jagers. The motion passed without dissent.

The meeting adjourned at 3:47 PM.